

Bob Brinker's **Marketimer**

Volume XVI, No. 11

www.bobbrinker.com

November 8, 2001

"My son, my son, if you
knew with what little
wisdom the world is ruled."
.... Oxenstierna

STOCK MARKET TIMING

DJIA: 9263.90

S & P 500: 1084.10

The issue of equity valuation as it applies to the Standard and Poor's 500 Index remains a concern in the current recessionary earnings environment. As **Marketimer** subscribers are aware, an analysis of the past half-century shows the average p/e ratio for the overall U.S. stock market approximates 17.5 during periods when inflation is less than 3.5%. There is no problem with the inflation side of the equation, as the current year-over-year consumer price index based inflation rate of 2.6% is well in hand, and is likely to remain under control going forward into next year.

The concern arises due to the fact that price/earnings ratios have remained relatively high, despite the broad market decline that has occurred since early last year. The problem of high valuation in the Standard and Poor's 500 Index has persisted because corporate earnings declines have served as an offset to declining stock prices. As a consequence, overall levels of Standard and Poor's 500 Index valuation have remained at high levels when compared with historical norms during periods of low inflation.

Getting a handle on Standard and Poor's 500 earnings continues to be a movable feast in an economy that is likely to show few signs of material improvement prior to sometime next year. However, our current estimate calls for the Standard and Poor's 500 Index to earn \$41.50 this year, and a range of \$45 to \$49 next year. Based on this estimated range for 2002, we are using a midpoint single estimate of \$47 for next year. The caveat on next year's earnings estimate is the fact that forward earnings depend largely on both the timing and the intensity of the next business cycle recovery.

Another problem with earnings estimates today is best summed up in the words of Wall Street icon Peter Bernstein, who refers to today's corporate earnings reports as an "open scandal of misinformation, subject to change without notice." We take this as a reference to the growing practice of writing off operating expenses as "non-recurring items", which serves to overstate operating earnings by eliminating many costs of doing business through one-time writeoffs which distort the true operating earnings record.

Of course, in the final analysis, we must work with the best numbers we have, and based on the level of the Standard and Poor's 500 Index at 1084 our current earnings estimate for this year of \$41.50 yields a price/earnings ratio of 26.1. This is just slightly under the highest p/e multiple in history, which was 28.1 in July of 1999, when many investors thought the risks of equity investing were very low relative to potential returns. Since then, that notion has disappeared entirely.

Looking forward into next year and using our \$47 midpoint earnings estimate for the Standard and Poor's 500 Index, the estimated price/earnings ratio stands at 23.1, which is still well above the historical multiple of 17.5 during periods of low inflation.

STOCK MARKET TIMING (continued from page 1)

This leads us to an obvious question. Will it be possible for the **Marketimer** stock market timing model to issue a buy signal to reinvest stock market cash reserves and return to a fully invested position despite the relatively high levels of valuation that may prevail going forward? The answer is potentially yes, but only within the context of a cyclical bull market opportunity, which would prevail for a minimum of several quarters before again leading to the next cyclical bear market. In order to get to a buy signal, we would need overwhelmingly positive readings from our Economic and Monetary indicators, along with a highly favorable reading in our Sentiment composite.

Rather than speculate on the timing of our next buy signal, we continue to recommend a patient approach to the market. We also recommend retaining stock market cash reserves until evidence of a low-risk entry point develops. We continue our long-standing policy of not selling into weakness and we recommend subscribers with a position in Nasdaq 100 (QQQ) shares hold these shares as we expect them to trade at much higher levels during the next cyclical bull market.

History has taught us that secular trends in the stock market last a very long time. The last secular bear market persisted over a 16-year period. During this period, there were five separate cyclical bear markets beginning in February of 1966.

<u>Cyclical Bear Market Period</u>	<u>DJIA Loss</u>	<u>Closing Low</u>	<u>Length</u>
February 1966 - October 1966	25%	744	8 months
December 1968 - May 1970	36%	631	17 months
January 1973 - December 1974	45%	577	23 months
September 1976 - February 1978	27%	742	17 months
April 1981 - August 1982	24%	777	16 months

The current bear market in the Dow Jones Industrial Average commenced on January 14, 2000 at 11722 and is now in its twenty-second month. As cyclical bears go, this one is already longer than average. If the starting point is measured from the March, 2000 closing high of 1527 on the Standard and Poor's 500 Index, the bear is now in its twentieth month, which is also above the average of the five cyclical bears that occurred during the February 1966 to August 1982 secular downtrend.

When the time comes to return to a fully invested position in equity portfolios, we believe investors should take into account the probability that we are in a secular bear market that began in the first quarter of 2000 and is likely to continue for many years. In that case, the question will be what kind of bull market periods we can look forward to in the overall market. In our view, the answer is cyclical bull markets which will last a minimum of several quarters and have upside potential of more than 20% for the Standard and Poor's 500 Index. In such a scenario, we would expect much higher percentage gains to occur in the more volatile Nasdaq indexes.

In order to gain insight into the potential magnitude of future cyclical bull markets, we look back to the four cyclical bulls that occurred during the February 1966-August 1982 secular downtrend.

<u>Cyclical Bull Market Period</u>	<u>DJIA Gain</u>	<u>Closing High</u>	<u>Length</u>
October 1966 - December 1968	32%	985	26 months
May 1970 - January 1973	66%	1051	32 months
December 1974 - September 1976	75%	1014	21 months
February 1978 - April 1981	38%	1024	38 months

We believe our next buy signal to return to a fully invested position in stock market portfolios will project a broadbased rally over a minimum of several quarters.

As shown in the table at the bottom of page two, each of the four cyclical bull markets that occurred during the February 1966 to August 1982 secular downtrend had a length of between 7 and 12 quarters, and in every case the gains exceeded 30%. Therefore, it is reasonable to assume that when we return to a fully invested position, we are likely to remain fully invested until our long-term stock market timing model returns to bearish territory. We believe this is most likely to occur within a timeframe of one-to-three years following our next buy signal.

In the event we have entered a secular downtrend, the years ahead will be a genuine challenge for investors. Efforts to identify cyclical bull markets and cyclical bear markets will make investing much more difficult than it was during the glorious buy-and-hold decade of the 1990's, during which **Marketimer** was able to ride the bull all the way into January of last year.

We will do our very best to identify the major market trends going forward, with the recognition that the work we have undertaken is the most challenging imaginable. One of our favorite Wall Street bromides has always been "the stock market is that creation of man which humbles him the most." As we approach the end of our sixteenth year of publishing **Marketimer**, we greatly appreciate the loyalty and support of our subscribers.

FEDERAL RESERVE UPDATE

The Federal Open Market Committee meeting on November 6 was held just after our November deadline, however we fully expect the Fed to maintain a policy of monetary accommodation until signs of an economic recovery become evident next year. The latest monetary figures continue to indicate the extraordinary extent to which the Federal Reserve is working to provide liquidity to a financial system that remains under the strain of rising unemployment, declining corporate profitability and the forces of recession evident in the third quarter GDP report.

The withdrawal of the post-September 11 liquidity infusion became apparent in the October monetary figures. Last month, year-over-year real growth in the monetary base was 11.2%, while this month the real annual growth rate has eased to 5.9%. Last month, the year-over-year growth rate in M-1 was 12.3%, while this month the annual growth rate fell to 2%. Last month, the real year-over-year growth rate of M-2 was 9.9%, while this month it stands at 7.4%. We believe the Fed's aggressive policy of monetary ease remains in place, and is likely to continue until clear indications of economic recovery appear in 2002.

Table A
Latest Monthly Data
(Billions)

	<u>October 2001</u>	<u>October 2000</u>	<u>Y-O-Y Changes</u>	<u>Real Y-O-Y* Changes</u>
Monetary Base	\$ 644.4	\$ 594.1	+ 8.5%	+ 5.9%
M-1	\$ 1,145.4	\$ 1,094.6	+ 4.6%	+ 2.0%
M-2	\$ 5,385.2	\$ 4,894.3	+10.0%	+ 7.4%

* adjusted for consumer price index increase of 2.6% for the 12-month period through 9-30-01.

MEDIA NOTES

Bob Brinker's **Moneytalk** is heard each weekend on over 220 stations nationwide. We welcome our new listeners in Tampa, FL on WHNZ (1250 AM) and in Providence, RI on WPRO (630 AM). For listening information visit the radio stations section at www.bobbrinker.com. Broadcasts originate each Saturday and Sunday from 4 p.m. to 7 p.m. eastern time.

BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

FUND	INV. [*] OBJ.	SIZE MIL.\$	% Total Return					\$1000 INV. 1-1-96=	EST. ^a YD.	TEL. SWCH	ANN. ^b EXP.	PRICE 10-31-01	
			'96	'97	'98	'99	'00						'01 (10-31)
Baron Small Cap Fund 767 Fifth Avenue 49 th Floor New York, NY 10153 800-992-2766	CGA BSCFX	\$ 586	-	-	2.2	70.8	(17.5)	(12.7)	---	0.1%	#	1.39%	12.63
Gabelli Asset Fund One Corporate Center Rye, NY 10580 800-422-3554	G GABAX	\$1731	13.4	38.1	15.9	28.5	(2.4)	(9.7)	\$ 2056	0.7%	Yes	1.37%	30.62
Gabelli Growth Fund One Corporate Center Rye, NY 10580 800-422-3554	G GABGX	\$2724	19.4	42.6	29.8	46.3	(10.6)	(33.1)	\$ 1934	0.0%	Yes	1.37%	25.28
Rydex OTC Fund 6116 Executive Blvd. Suite 400 Bethesda, MD 20852 800-820-0888	G RYOCX	\$861	43.5	21.9	86.5	100.6	(37.8)	(43.3)	\$ 2308	0.0%	Yes	1.15%	9.59
TIAA/CREF Growth Equity 730 Third Avenue New York, NY 10017 800-223-1200	G TIGEX	\$ 616	-	-	36.0	33.0	(20.3)	(29.9)	---	0.2%	Yes	0.45%	9.02
TIAA/CREF Growth&Income 730 Third Avenue New York, NY 10017 800-223-1200	G&I TIGIX	\$ 590	-	-	30.5	24.5	(7.3)	(20.7)	---	0.9%	Yes	0.43%	11.17

* Investment Objective Codes: CGA = Capital Gains Aggressive; G = Growth; G&I = Growth & Income

a) Estimated annual yield represents approximate investment income for last 12-months expressed as percentage of fund assets.

b) Annual expense ratio reflects investment advisory fees and other expenses expressed as percentage of total fund assets.

Telephone redemption available.

BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

FUND	INV. [*] OBJ.	SIZE MIL.\$	% Total Return					\$1000 INV. 1-1-96=	EST. ^a YD.	TEL. SWCH	ANN. ^b EXP.	PRICE 10-31-01
			'96	'97	'98	'99	'00	'01 (10-31)				
Dodge & Cox Stock 1 Sansome St. (35th Fl.) San Francisco, CA 94104 800-621-3979	G&I DODGX	\$7576	22.3	28.4	5.4	20.2	16.3	(1.7)	1.6%	#	0.55%	92.48
Neuberger & Berman Focus Fund 605 Third Avenue New York, NY 10158 800-877-9700	CGA NBSSX	\$1434	16.2	24.1	13.2	26.0	12.4	(19.4)	0.0%	Yes	0.85%	31.76
Strong Growth Fund P.O. Box 2936 Milwaukee, WI 53201 800-368-3863	G SGROX	\$1923	19.5	19.1	27.0	75.1	(9.2)	(40.0)	0.1%	Yes	1.30%	16.23
Vanguard Calvert Social Index Fund P.O. Box 2600 VCSIX Valley Forge, Pa 19482 800-662-2739	Social Index	\$ 80	---	---	---	---	(9.0)	(21.9)	1.0%	Yes	0.25%	7.10
Fidelity Utilities 82 Devonshire Street Boston, MA 02109 800-544-8888	Income FIUIX	\$1480	11.4	31.6	28.5	26.7	(20.5)	(20.7)	0.4%	Yes	0.79%	12.67
Schwab 1000 (R) 101 Montgomery St. San Francisco, CA 94101 800-266-5623	G SNXFX	\$3916	21.6	31.9	27.1	21.0	(8.2)	(19.5)	0.8%	Yes	0.46%	29.57
Vanguard Index 500 P.O. Box 2600 500 Valley Forge, Pa 19482 800-662-2739	S&P VFINX	\$82624	22.9	33.2	28.6	21.1	(9.1)	(19.0)	1.0%	No	0.18%	97.86

R) 0.50% redemption fee on shares held less than six months.

Marketimer is written and published monthly by Robert J. Brinker Investment Advisory Services, Limited. All rights reserved. Although the information in this newsletter is based on sources which are believed to be reliable, accuracy cannot be guaranteed. All opinions and estimates included herein constitute our judgement as of this date and are subject to change. This report is for information purposes only. Marketimer employees may from time to time invest in securities mentioned herein. Copyright © 2001.

BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

FUND	INV. [*] OBJ.	SIZE MIL.,\$	% Total Return						\$1000 INV. 1-1-96=	EST. ^a YD.	TEL. SWCH	ANN. ^b EXP.	PRICE 10-31-01
			'96	'97	'98	'99	'00	'01 (10-31)					
Vanguard Index (x) Extended Market Portfolio P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	Index VEXMX	\$ 4175	17.6	26.7	8.3	36.2	(15.5)	(19.9)	\$ 1488	1.0%	No	0.25%	20.51
Vanguard Index (x) Small Cap Stock Portfolio (address/phone above) NAESX	Russell\$ 4085 2000		18.1	24.6	(2.6)	23.1	(2.7)	(9.8)	\$ 1548	1.0%	No	0.24%	17.54
Vanguard Index Total Stock Market Portfolio (address/phone above) VTSMX	Wilshire \$ 22243 5000		21.0	31.0	23.3	23.8	(10.6)	(18.7)	\$ 1759	1.0%	No	0.20%	23.58
Vanguard International Growth Portfolio (address/phone above) VWIGX	Non \$ 6553 USA		14.6	4.1	16.9	26.3	(8.6)	(25.4)	\$ 1201	1.1%	Yes	0.52%	14.08
Rowe Price European 100 East Pratt St. Baltimore, MD 21202 800-638-5660	Europe \$ 837 PRESX		25.9	17.0	25.8	19.7	(6.7)	(26.0)	\$ 1531	1.0%	Yes	1.01%	15.28
Longleaf Partner's Int'l 6410 Poplar Ave. Suite 900 Memphis, TN 38119 800-445-9469	Int'l \$ 774 Growth LLINX		---	---	---	24.4	25.9	10.4	---	2.3%	#	1.79%	13.32

x) Vanguard Index Extended and Small Cap funds charge purchase fees of 0.5% or less to defray expenses of broad diversification; annual expense ratios on these funds are extraordinarily low.

INTEREST RATES/FIXED-INCOME INVESTING

The **Marketimer** fixed-income recommendations currently have an average yield of 4.90%, and an average maturity of 2.85 years. Vanguard Ginnie Mae Fund continues to provide excellent returns with a current yield of 5.9%.

<u>Fixed-Income Investments</u>	<u>% Weighting</u>	<u>Current Yield</u>	<u>Average Maturity</u>
Vanguard Fixed-Income Short-Term Federal	50%	3.89%	2.9 years
Vanguard Ginnie Mae Fund (800-662-7447)	50%	5.92%	2.8 years

Subscribers with holdings in Vanguard Short-Term Federal who do not need current investment income to meet expenses can take advantage of the generous tax-deferred returns offered in U.S. Inflation Savings Bonds, also known as I-Bonds. For details on I-Bond investing, visit www.savingsbonds.gov. I-Bonds must be held a minimum of six-months, and incur a three-month interest penalty if redeemed within five years. Tax-deferral of interest is a major plus for I-Bond investors and in qualified cases I-Bonds can be redeemed tax-free for payment of expenses such as college tuition. Individuals may purchase up to \$30,000 per calendar year. I-Bonds can be purchased online or at banks and Federal Reserve banks that sell them. They are state tax free.

Our favorite tax-exempt funds include Vanguard Long-Term Tax-Exempt, yielding 4.3% with an average maturity of 10.2 years, and Vanguard Intermediate Tax-Exempt, yielding 3.53% with an average maturity of 6.6 years. Vanguard also offers state tax-exempt funds for residents of CA, FL, NJ, NY, OH and PA.

Our favorite money fund is Vanguard Prime Money Market, now yielding 2.72%.

ACTIVE/PASSIVE PORTFOLIO

The **Marketimer** active/passive investment portfolio remains 65% in money market funds, 25% in Vanguard Total Stock Market Index, 5% in Vanguard or T. Rowe Price European, and 5% in Vanguard International Growth. This portfolio offers broad diversification, very low expenses and a high level of tax efficiency over time.

INDIVIDUAL ISSUES

All individual issues are rated "hold" at this time. The maximum exposure in any one company stock should not exceed 4% in order to control specific stock risk. This guideline does not apply to exchange-traded-funds such as SPY, VTI, DIA or QQQ, which are linked to the performance of underlying stock indexes. Due to the premium that has developed in the shares of Gabelli Equity Trust (GAB), we are recommending these shares be sold and proceeds be reinvested in Gabelli Asset Fund (GABAX).

<u>ISSUES</u>	<u>Beta</u>	<u>Exchange</u>	<u>Symbol</u>	<u>11-2 Close</u>	<u>Est. earnings per share</u>	
Microsoft	1.25	Nasdaq	MSFT	61	1.85 (6-02)	2.10 (6-03)
Vodafone/AirTouch	1.05	NYSE	VOD	23.50	0.52 (3-02)	0.72 (3-03)
S&P Dep. Receipts	1.00	AMEX	SPY	108	4.15 (2001)	4.70 (2002)
Total Market VIPERS	1.03	AMEX	VTI	98.50	n/a	
DJIA Diamonds	0.85	AMEX	DIA	92.50	4.35 (2001)	4.80 (2002)
Nasdaq 100 Index	1.75	AMEX	QQQ	35	*	

* Marketimer estimates the 35 largest profitable companies in the Nasdaq 100 Index are trading at an average price/earnings ratio of 41 times projected earnings for 2002. These companies represent approximately 74% of the total market value of the index as of October, 2001. These 35 companies, ranked in order of capitalization, are: MSFT, INTC, QCOM, CSCO, ORCL, AMGN, DELL, MXIM, WCOM, LLTC, CEFT, IMNX, AMAT, GENZ, CHIR, SUNW, PAYX, BMET, XLNX, BGEN, BBY, INTU, EBAY, ALTR, FLEX, JDSU, GMST, COST, CTAS, IDPH, MEDI, VRSN, FISV, SBUX and PSFT.

MARKETIMER NO-LOAD MUTUAL FUND MODEL PORTFOLIOS

The *Marketimer* no-load model portfolios are designed to provide investors seeking aggressive, growth and balanced objectives with a strategic approach to investing in no-load funds over the long-term.

Model Portfolio I is designed for investors with *aggressive growth* investment objectives. Such investors seek maximum returns and are willing and able to accept high levels of risk and volatility. Current income is not a factor in this portfolio.

Model Portfolio II is designed for investors with *long-term growth* objectives. Such investors seek to enhance the value of capital over time and assume a reasonable level of diversified market risk. Current income is not an important factor.

Model Portfolio III is designed as a *balanced* portfolio for current investment income along with capital preservation and modest growth. The portfolio is allocated evenly between equities and fixed-income securities. This portfolio is best suited to investors nearing or already enjoying a retirement lifestyle.

MARKETIMER MODEL PORTFOLIO I

(\$20,000 value on 1-1-88)

<u>Current Holdings</u>	<u>%</u>	<u>Beta</u>	<u>Value 10-31-01</u>	<u>% Change</u>
Strong Growth	05	1.16	\$ 4,353	
Baron Small Cap.	05	1.15	3,235	
Rowe Price European	05	0.65	2,708	
Vanguard Int'l. Growth	05	0.70	2,183	
TIAA/CREF Growth Equity	10	1.38	6,562	
TIAA/CREF Growth Income	05	1.04	9,015	
Money Market	<u>65</u>	<u>0.00</u>	<u>100,488</u>	
	<u>100%</u>	<u>0.37</u>	<u>\$ 128,544</u>	<u>+ 543%</u>

MARKETIMER MODEL PORTFOLIO II

(\$20,000 value on 1-1-88)

<u>Current Holdings</u>	<u>%</u>	<u>Beta</u>	<u>Value 10-31-01</u>	<u>% Change</u>
Gabelli Asset Fund	05	1.33	\$ 3,842	
Rowe Price European	05	0.65	3,022	
Strong Growth	05	1.16	4,519	
Vanguard Int'l. Growth	05	0.70	2,218	
TIAA/CREF Growth Equity	10	1.38	6,439	
TIAA/CREF Growth Income	05	1.04	4,591	
Money Market	<u>65</u>	<u>0.00</u>	<u>81,218</u>	
	<u>100%</u>	<u>0.38</u>	<u>\$ 105,849</u>	<u>+ 429%</u>

MARKETIMER MODEL PORTFOLIO III

(\$40,000 value on 3-1-90)

<u>Current Holdings</u>	<u>%</u>	<u>Beta</u>	<u>Value 10-31-01</u>	<u>% Change</u>
Vanguard Short-Term Federal	25	0.01	\$ 27,739	
Vanguard Ginnie Mae Fund	25	0.01	31,511	
Rowe Price European	02.5	0.65	2,351	
Dodge & Cox Stock Fund	05	0.65	8,571	
TIAA/CREF Growth & Income	07.5	1.04	8,842	
Vanguard Int'l. Growth	02.5	0.70	1,914	
Money Market	<u>32.5</u>	<u>0.00</u>	<u>39,037</u>	
	<u>100%</u>	<u>0.15</u>	<u>\$ 119,965</u>	<u>+ 200%</u>

HOW TO SUBSCRIBE TO *BOB BRINKER'S* MARKETIMER

NAME _____

ADDRESS _____

CITY / STATE / ZIP _____

Make check or money order payable to *Marketimer* and send to:

Marketimer
410 Saw Mill River Road
Suite 2060
Ardsley, NY 10502

One-year subscription: \$185 (overseas subscribers add \$10)